

# Letter from Canberra

December 2021  
Issue CBR2-1

**AFFAIRS OF STATE**  
A PUBLIC AFFAIRS FIRM

A Monthly Public Affairs Bulletin

## INSIDE

### Our advice to government

What would we do now?

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### Business Trends

Resilience, prosper -  
leadership and recovery  
takes centre stage,  
collaboration is most  
needed.

### Tell us what you think

Call Hans on  
0438 280 724

[alistair@affairs.com.au](mailto:alistair@affairs.com.au)

[hans@affairs.com.au](mailto:hans@affairs.com.au)

[michael@affairs.com.au](mailto:michael@affairs.com.au)



## We're back! Recovery together

For over 20 years Affairs of State has produced this monthly newsletter to highlight relevant news for all decision makers. In a more crowded news market we provide key topic and news summaries to help interpret relevant decisions and policies for today's public and private sector leadership.

The all important recovery period ahead needs to be a consolidated public private partnering effort focused on restoring social and economic balance. Effective collaboration has never been more important, some leaders have gained unique and relevant experience over the pandemic period.

Individually public and private sector entities are unlikely to have all the skills and the breadth of vision across multiple parts of the economy and the community to come up with the best next steps. We have not been here before, we need to work it out together, producing social and economic recovery across a single country.

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# Affairs of State - our advice to governments

**It is easy just to comment but what strategic, consulting advice would we offer Federal government - constructively, not controversially.**

Governments need to reach out for skill, the private sector needs to help government let markets speak!

The vaccine driven national plan must be adhered to. At 80% national vaccination there should not be any further lockdowns and state border restrictions keeping families, friends and business apart must come to an end as per the National Cabinet deal.

Lead through action, investment and care to restore wellbeing - without focusing on re-election and political outcomes.

Disband National Cabinet, it has done a job but it is now contributing to leadership confusion stimulated by politics. COAG should return to help implement Commonwealth policy and leadership strategies.

Detail a plan to fix the hospital system long-term - Australia cannot again be held hostage to ineffective management of the health system, physical and mental.

Minimise debt, drive a focus on jobs, growth, investment attraction, diversification and global competitiveness as part of delivering the country as a better place to live, develop and prosper. Be fiscally ready in the event of a sequential economic correction post pandemic.

Brutally assess skill requirements within government, commencing with key social and economic outcome departments. Implement Advisory Boards for each department, made up from experienced public and private sector leaders tasked solely with influencing departmental recovery strategies, implementation, right sizing and skill development.

Restore education, tourism and migration flows and face to face trade. Enable families and friends to reconnect. We must dispel the risk of being networked out of global access, trade and investment attraction due actual and perceived government conservatism and ongoing persistence with state border restrictions.

Be clear and precise with climate change strategies. This is not the time for more fear, Australia is meeting targets while China, US, India and Indonesia climate strategies remain unclear. Focus on cheaper electricity sources and minimising economic impact before fossil fuel usage is reduced and more manufacturing jobs are lost. Australian cost of living levels are already too high.

Implement and maximise outcomes from buy local campaigns and reduce government red tape where possible to encourage economic growth and social wellbeing.

Order the public service back to the office, focused on the recovery strategies that deliver social and economic outcomes. Recovery strategies set and confirmed by newly created Departmental Advisory Boards.

Implement a Royal Commission into the management of the pandemic with the main purpose being learnings and actions to avoid a repeat of mistakes made. This must be done urgently, without concerns over potential legal action or accountability. Own the mistakes made.

Create certainty over fear, hope over despair, a positive outlook for future property and care. Leadership, not management.

## Interest rates

Low interest rates help trade-exposed industries through the exchange rate but they have negative consequences, especially for those relying on interest income. The Reserve Bank Board has determined that lower interest rates benefit the community as a whole at this time.

From mid 2022, underlying inflation is forecast to pick up a little more quickly than previously anticipated to be a little above 2 per cent by end 2023, reflecting the faster reduction in spare capacity in the economy.

The Reserve Bank has forecast some divergence between headline and underlying inflation, as some of the recent one-off boosts to inflation unwind. However, absent further significant government policies affecting measured inflation, headline inflation should converge back toward underlying inflation by mid 2022.

A key domestic uncertainty is how wages and prices respond to declining spare capacity. In the Reserve Bank baseline scenario, the unemployment rate is forecast to decline to around 4 per cent by the end of 2023, resulting in a steady increase in wages growth and inflation in what many will consider a position of full employment where work is chasing people.

This rate of unemployment has only been experienced in Australia briefly, in 2007/08 during the height of the mining investment boom. As there is little direct historical experience to draw on, and the longer-term effects of the pandemic on potential growth and full employment are uncertain, it is possible that price pressures build more quickly or slowly than envisaged in the baseline scenario.

One particular element of uncertainty surrounding the outlook for domestic wages and prices relates to the effect of closed international borders. This has reduced the number of temporary migrants in the country, reducing labour supply in some areas and weighing on demand in the economy, mainly via a reduction in education exports and lower population growth. Although prices and wages would typically be expected to adjust fairly smoothly over time to longer-lived changes in the demand for and supply of goods, services and labour, the pandemic has been an abrupt shock. The sudden nature of the resulting changes in demand and supply in the economy, and the possibility of sharp reversals as borders reopen (exacerbated by uncertainty about when this will occur), means there is considerable uncertainty around the future behaviour of wages and prices.

Capacity constraints could also become more prominent in parts of the economy, particularly in residential and non-residential private and public investment where a large amount of activity is forecast over coming years. This volume of investment activity could result in price and wage pressures emerging more quickly than anticipated. Restricted interstate labour mobility would exacerbate this. Alternatively, capacity constraints could result in projects being rationed or delayed, resulting in lower output growth than otherwise and potentially, a slower than forecast recovery.



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# Key economic facts & figures

COVID has been with us now for nearly two years, so much has happened and changed during that time. Key economic indicator comparisons are useful over this period and as we look ahead from the latest available data.

Most of these numbers are artificial, boosted by stimulus, low interest rates and workforce shifts from impacted sectors to those sectors that have grown as demand patterns have changed through the pandemic period.

- The unemployment rate in AUG20 was 6.8%, in JUL21 it stood at 4.6%.
- Baseline GDP growth is forecast at 4% for December 2021, 4.5% for June 2022 and 4.25% for the period ending December 2022.
- Fluctuations have occurred but from AUG20 to NOV21 the Australian Dollar was steady (\$0.72 vs \$0.74) against the US Dollar.
- The average house price increased from \$709,000 in SEP20 to \$779,000 in MAR21 - house prices continue to increase.
- Household debt as a share of income stood at 181% in MAR21.
- Household consumption is forecast to grow by 2.75% at December 2021 and by 5.25% at June 2022
- Manufactured goods and the export of services continues to decline with export sector losses in the 20 to 40% range. Resource exports continue to grow with a 67.4% overall share of AU exports JUN21. - freight and logistics disruption continues to impact import and export sectors.
- Wage growth is steady, up 1.4% in SEP 20 and up 1.7% in SEP21.

In a pointer to Australia's recovery period China GDP growth SEP20 was 4.9%. Heavily reliant on consumption growth post pandemic China GDP growth has increased to 7.9%. A similar trend for G7 GDP growth, which stood at -4.0% SEP 20 and at 12.8% for JUN21.

The Australian economy is recovering after the interruption caused by the Delta outbreak. As vaccination rates increase even further and restrictions are eased, the economy is expected to bounce back relatively quickly. One important source of uncertainty continues to be the possibility of a further setback on the health front, many entities have the impact of health restrictions high in their future risk profiles.

The Delta outbreak caused hours worked in Australia to fall sharply, but a bounce-back is now underway. Data on job ads suggest that many firms are now hiring, which will boost employment over coming months. The central forecast is for the unemployment rate to trend lower over the next couple of years, reaching 4¼ per cent at the end of 2022 and 4 per cent at the end of 2023.

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## Changing how we work

Lets start with the AFR reporting that Prime Minister Scott Morrison has urged Commonwealth workers to get back to the office. Most people have heard of, or know of, or are living the resistance and preference towards a work-from-home lifestyle.

Will we get back to the office five days per week? Is there a split between office and home work for the foreseeable future? Will this be different for the public versus the private sector?

**Are we being too cautious, too reflective and not balanced in our leadership of service, accountability and overall responsibility? In the spirit of much needed economic recovery and social development is it political and business leadership that needs to say, get back to work, or no job?**

What is the answer for the CEO, or Head of HR, or Department Secretary questioning why they are paying full-time wages while they are uncertain of receiving full-time productivity?

Is there now a leadership moment that says, Enough is Enough?

Rightly there is a debate around this. Yes, it is thought provoking and yes there are things to consider, eg mandatory vaccinations. None of us have been here before and it is clear we cannot continue on our current path or to have conservatism stifle recovery and hold the country, our people and our kids back.

Embracing change to new ways of working can be right, in the short and the long term. Equally, bringing people back to the office can also be right. Seeking help with that analysis is logical, getting these decisions right is critical as organisations focus on their next phase. Adapting to work from home should not have to be what we do next.

To what extent is effective digital transformation and enablement required within organisations? Improved collaboration is great but many people are keen to 'burn the Zoom style apps' and do better business face to face.

Will organisations, as we are seeing in Singapore already, realign the way they hold working space commitments? It has been reported that October occurrence in Melbourne's CBD was as low as 6%.

Should the public service be leading a return to work, acknowledging its part in recovering many CBD and other regional and city locations by returning consumption to pre-pandemic levels from a sector sheltered from the financial impacts imposed on the private sector through COVID?

ANZ CEO Shane Elliott was reported in the AFR in an article focused on work from home during lockdowns as saying "being authentic helps, not just putting on a brave face," He also said: "It is hard. I am privileged and I can't complain but there is a sense of deja vu. It's hard to sit here on my own in a room and stay motivated."



## Some observations, in short

Supply-chain disruptions now outweigh COVID-19 concerns as the biggest risks executives see to domestic and corporate growth.

In a special report on COVID fatigue and youth mental health, Affairs of State client SchoolTV confirms spikes in a range of youth psychological concerns including; depression, anxiety disorder, substance abuse, self harm and loss of motivation as schools were closed, social contact disrupted and rites of passage, like formals have been lost forever for senior students in the pandemic period.

SchoolTV recommendations to parents today:

- Focus on health and safety, on student wellbeing over academic results
- Encourage kids to focus on the things they can control: eating, sleeping, exercise, socialising with friends
- Encourage kids to reflect each day on what went well and why
- Remind young people that while we can't control what happens we can control how we respond
- Parents, put our own oxygen mask on first, look after your own wellbeing to help that of your children
- Reach out for help when you need it

For more details:

<https://schooltv.me>

As small business owners are we aware of the entitlements under the instant asset write-off provisions? With tax time here it is time to speak with your accountants and tax advisers and determine if an investment is in your future.

Canberra Airport CEO Stephen Byron has been as vocal as anyone over pandemic border closures and travel restrictions. One piece of good news for CBR Airport, Jetstar has launched new flights between Brisbane and Canberra, marking the first time the low-cost carrier has operated services into Canberra.

As part of their holiday at home campaign Tourism Australia have generated detailed information on all the things to do in Canberra. Take a look here, even if you live in the capital! <https://www.australia.com/en/places/canberra-and-surrounds/guide-to-canberra.html>

A Qantas A380 will make its long-awaited return to Australia on Tuesday 9 November, touching down in Sydney mid-afternoon in the surest sign yet that the travel recovery is starting.

## Digital Transformation

Few companies believe that their current business models will remain viable if they don't go digital! Making the shift, in many cases, needs advice on how best to combine strategy with technology, capability and market forces.

There is a strategic opportunity for governments to consider and develop digital platforms and build large provider economies to improve efficiencies.

Part of digital transformation is the creation of rich real-time data from government and industry platforms. For example, this real-time data flow could be the key to future regulation and operations, giving decision makers instant insight into how markets are operating and consumers full transparency to make choices.

We have already seen the power of this thinking with the Australian Tax Office's single-touch payroll platform. Expert providers, like us can help with the right digital transformation, for business and for government.



## Star worker left?

You're not alone if you've seen some of your best workers quit in the past year

As we look ahead, as organisations tack change, what is the cost of losing a star? How do you replace them?

High performers are the most productive, losing key employees, their skills, their relationships and their commitment can have a heavy bottom-line and strategic impact.

Someone earning \$200,000. To replace the person assume a 50K hire cost in addition to the 150K (or more) for the six to nine months it takes to get the replacement up to speed.

Lost productivity will cost about \$200,000, assuming it will take about a year for the replacement to be trained to the same level of productivity as the previous employee, making a total loss of about \$400,000.

The quick fixes many companies have offered—such as financial perks and work from home—may fall flat because they likely don't address reasons for leaving.

The rest of the team may also be wondering if they should stay.

With work/vacancies chasing people today, retention becomes key and it will be cost-beneficial.

Companies need to focus on retention including greater decision involvement, better rewards and greater involvement in the design of organisational and workforce strategies.

It really does work. It may have to.

## China trading

China views individual bilateral relations in the context of wider global issues. For example, Australia's alliance with the US means that Australia's relations with China are linked to the health of the US-China relationship.

China has blocked timber exports from Victoria and well as Queensland, South Australia and Tasmania. Australian coal, barley, beef, concrete, sugar, wine and lobster have suffered a similar fate.

There's been no change to the Government's response to China's imposition of trade restrictions since diplomatic relations became more difficult, Affairs of State suggests that China will use its market power to leverage change.

Export market diversification to minimise reliance on a market that can be impacted geopolitically is now more important than ever.

Overall Australia trade data does not look that bad. It is resource dependent and it should be no surprise that China has been reported as wanting to divest its dependence on Australian ore. Any such move will impact the WA and Australian economies. A taste of that is already occurring with China slowing down steel output over the northern winter period.

Recent trade data shows China's trade restrictions do not pose an immediate threat to Australia's economy. From a broader macroeconomic perspective overall market disruption is minimal. Hard data doesn't lie. The latest figures should provide the Government with confidence and time to work on relations with the nation's biggest trading partner.

It has taken many years to establish many export channels to China. Businesses may not want to decouple from China, but it's a challenge we may need to help them face.

## A golf club dilemma

As Chairman of a Victorian golf club Hans holds a record he hopes will never be beaten, the amount of times a golf club has been closed inside two years, with no evidence to legitimise the risk of Covid spread outdoor. Closure harmed wellbeing. Most golf clubs reflect a business in an industry with pandemic induced higher participation levels and better financial positions. How to retain, how to remove the uncertainty of whether you can play and how do we best present golf and local clubs to maximise participation? At our club the strategy has been pretty simple, effective cost control and delivering the course in the best possible state, the rest should, and has followed. Happy golfing to all.

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## **Mortgage pressure**

New analysis from Digital Finance Analytics (DFA) shows that 56.8% of households in Tasmania were in mortgage stress in May, up 1% on the previous month. New South Wales saw an increase of 3%, reaching 41.3%, while Canberra recorded a 3%, reaching 42% of households.

DFA measures mortgage stress in cash flow terms, with a household considered to be in mortgage stress when its outgoing costs exceed its net income.

Mortgage stress comes from rising property prices, low wage growth and interstate buyers adding to the local problem. Regional housing crunches and sharp regional property price increases are being reported as more regional migration occurs.

A new problem is regional centres not being able to fully realise the benefits of regional migration, infrastructure development and organisational relocation due to housing supply shortages.

In regional areas, the problem is extended if inter-state buyers are not occupying. More homes let to short-stay leisure visitors as investment properties put extra pressure on stock and the local longer term rental market.

Sector driven underemployment remains a key cause of mortgage pressure.

## **Australia's international borders**

Australian economist Saul Eslake has reported that international Australian border closures have delivered some under-recognised, artificial short-term benefits to Australia's economy.

The upwards of A\$50 billion that Australians would have spent overseas during the past year – if they'd been able to travel – has instead been deflected into domestic spending, boosting retail sales, vehicle sales, home renovations, and hence employment. Domestic saving levels are also well up and the international border closure has contributed to an investor economy strong with cash.

## **Border closures and freight**

Space requirements are dominating the cost of freight. Demand is at never seen levels. Capacity is limited on the sea due to high demand and, in the air, due to border restrictions also pushing freight to sea shipments.

Plan ahead, give as much notice as possible to book freight requirements. Import greater inventory levels to minimise disruption. Plan exports well ahead, forget just in time shipping methodologies. For now, these do not exist.

The Export Council of Australia has raised concerns over the nation's reduction in international flights. The Group's Chair Dianne Tipping is calling for the government to look into the issue with appropriate seriousness and consider extending the International Freight Assistance Mechanism to include containerised sea freight.

Affairs of State has much experience and vast network of contacts in this area. Let us see if we can help, or point you in the right direction.

## **A PM meeting in Singapore**

Lee Hsien Loong hosted Scott Morrison on 10 June 2021 in Singapore for the sixth Australia-Singapore Annual Leaders' Meeting.

The Prime Ministers acknowledged the importance of open borders to the post-pandemic recovery and committed to resuming two-way cross-border travel when the public health situation in both countries permits. This has now been confirmed. They also discussed cooperating on welcoming the return of Singaporean students to Australia to continue with their studies.

## **Destination demand recovery**

How to bring back destination demand to recover our visitor economies? We know how, we know how to restore air capacity and we have a very unique medium from which to build effective destination recovery action plans and communicate with passengers heading to your destination. Talk to Hans on 0438 280 724 or [hans@affairs.com.au](mailto:hans@affairs.com.au)

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## In closing....

Affairs of State has long had a successful email newsletter strategy.

Email marketing has been around for a while. An email newsletter is a great way to establish a direct conversation with your target audience to keep them engaged and updated. You can use this opportunity to build a relationship, share content and discuss ideas.

We encourage our clients to become involved in these monthly pages, what research and publication can we do to help your leadership?

Why do we have an effective newsletter strategy?

- It stimulates conversation and it encourages collaboration
- It promotes engagement and effective public private partnerships
- It is thought reflective on the things we are good at, the things we can improve and the things we need help with - particularly useful at a time where collaboration (that word again) will help get us recover as quickly as possible.
- It makes you aware of things you can do differently. Why not consider an as required CTO, COO or CSO. on demand? Michael and Hans are uniquely placed to deliver and any initial consultation is part of your Letter from Canberra or Letter from Melbourne membership.

## Uniquely Canberra

The bus stops.....

The Australian War Memorial

Parliament House

Hiking Mt Ainslie from the CBD

Canberrans are staunch defenders of the idea that you never EVER turn your heater on in Canberra before Anzac Day!



We'll shout the coffee.

Over much of the past 10 years Hans and Michael have worked on some of this country's most challenging issues, often at the point where government, private and community interests intersect.

Our experience covers areas ranging from industry development, to emergency management, to pandemic recovery, to economic growth, to being a company doctor, to aiding social development and to government engagement.

At a time where the upcoming recovery period is so important, where we can't do it alone and where the damage and impact is so severe all normal rules are out the door.

Our systems, our politics are broken.

It is OK not to be OK, especially in the situation we now have. The scars in our collective psyche will remain long after the pandemic has passed.

There is no vaccine that can magically prop up our mental health, but help exists.

It is OK to seek help, it works and it is not a sign of weakness or instability.

Giving voice to quiet despair can be the first step to healing.

Those Summernats (6 - 9 Jan 2022 )

High teas with a twist

Date night watching the Raiders

The Truffle Farm

Friday night roller disco

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Ovolo Nishi hotel

Lake Burley Griffin

## 30 Year Celebration!



### SOLEMATE SOFTWARE AND EVANS SHOES Proudly both Australian Wholesale and eCommerce Online Store success story during COVID.

As a premium point of sale software provider, SoleMate Software prides themselves on the quality of their service, and this is reflected in the quality of their clients. Client for almost a decade, Evans Shoes has seen success using SoleMate's software and service, and it's all been done remotely.

Success for Evans Shoes from SoleMate's software has been mainly across:

- Inventory control, visibility in store and online.
- eCommerce online store with 24/7 service,
- Time efficiency

Evans Shoes' Head office is based in Echuca with the work by SoleMate done mostly remotely by team members in the Melbourne office.

Hugh Evans, from Evans Shoes says, "SoleMate Software ensures seamless inventory control, saving us time, with SoleMate software running both in store and back of house.

"With SoleMate we know accurately our inventory across stores, including our online store. In turn, this saves us time and allows us to focus on other facets of the business."

Proudly family owned and committed to their identity as a high-quality Australian operator, like SoleMate, working together with Evans Shoes has meant both organisations have benefited.

Part of the appeal of SoleMate's point of sale software for Evans Shoes is the colour & size matrix, which enables Evans Shoes to easily distinguish between their models of footwear, allowing for efficient and effective stock handling.

"SoleMate is really easy for everyone to use, whether we're making sales in store or transferring stock between stores, it's all available at the click of a button," Hugh confirms.

Like SoleMate, Evans Shoes is an

Australian business, which meant they were eager to use suppliers that were committed to investing and supporting the local community. With a service team based entirely within Australia, SoleMate is readily disposed to collaborate with Evans Shoes and assist them with a true understanding of their business objectives and needs. This has been instrumental for the online side of the business. SoleMate has ensured seamless integrations to their online store with Shopify, and most importantly to the warehouse.

"We're constantly looking to grow and evolve our business and we're working closely with SoleMate to facilitate this in what is a very competitive landscape. It's been really great to have that level of service and to tailor their product to what we're looking to achieve," Hugh says.

"As Evans Shoes continue to expand into the future and strengthen their brand, we couldn't be happier to work alongside them and help them provide their footwear to customers in country Australia", Craig Cookesley, owner of SoleMate Software says.